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Fleurke, F.; Hulst, J.R.

### ***published in***

Public Organization Review  
2006

### ***DOI (link to publisher)***

[10.1007/s11115-006-6902-4](https://doi.org/10.1007/s11115-006-6902-4)

### ***document version***

Publisher's PDF, also known as Version of record

[Link to publication in VU Research Portal](#)

### ***citation for published version (APA)***

Fleurke, F., & Hulst, J. R. (2006). A contingency approach to decentralization. *Public Organization Review*, 6(1), 37-56. <https://doi.org/10.1007/s11115-006-6902-4>

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# A Contingency Approach to Decentralization

Frederik Fleurke · Rudie Hulst

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**Abstract** After decades of centralization, in 1980 the central government of the Netherlands embarked upon an ambitious project to decentralize the administrative system. It proclaimed a series of general decentralization measures that aimed to improve the performance of the administrative system and to boost local democracy. This article presents the results of research into the effects of these measures. It shows that the decentralization project did not meet the high expectations. This can be explained by the fact that the theoretical framework underlying the decentralization policy was overly simple. The authors present a new framework that represents the contingent character of the effects of decentralization.

**Keywords** Decentralization · Democracy · Local government · Service delivery

European countries show a great variety of administrative systems (Chandler, 1993; Bennett, 1993: 28–45). Besides marked differences between unitary and federal states, differences also exist within these two categories. Some Scandinavian unitary states have relatively strong local governments providing a wide range of public services uninhibited by detailed administrative regulation. Other unitary states, like France, have a relatively weak local government (Page and Goldsmith, 1987: 161; Maurel, 1993). Although the Federal Republic of Germany formed an example for the designers of the 1978 Constitution of post-Franco Spain, there are substantial differences in the division of competencies between the central states, the *Länder* and the *Comunidades Autonomas*, and the local communities in both countries (Fernández Segado, 1994; Agranoff, 1996).

This picture is further complicated by the fact that administrative systems show continuous shifts in the relations between central and local government. Administrative systems seem to oscillate between centralization and decentralization. Some scholars claim that changes in political culture, more than anything else, cause alternating movements towards centralization and decentralization (Namenwirth and Weber, 1987). The supposedly fashionable character of shifts towards centralization and decentralization is deduced from the fact that the same

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F. Fleurke (✉) · R. Hulst  
Department of Public Administration and Organisation Science,  
De Boelelaan 1081, 1081 Amsterdam, HV, Netherlands  
e-mail: f.fleurke@fsw.vu.nl

arguments are used by some theorists to propagate the claim for decentralization as well as the claim for centralization (De Vries, 2000: 202). We do not deny that the dominant political culture in a certain period colors the debate on centralization and decentralization. In some eras equality is valued higher than efficiency, in others participation in decision-making is considered more important than the quality of service delivery. However, we reject the implied suggestion that ‘anything goes’ in the debate on centralization and decentralization, and that scientific knowledge about the performance of different administrative systems is obsolete. On the contrary, if we want to rationalize the political debate, it is necessary that claims on positive or negative effects of centralization and decentralization will be subjected to empirical scrutiny.

In Spain in the post-Franco era, decentralization of state functions to the *Comunidades Autonomas* was a political imperative. Not only did it address the huge cultural differences between the regions; it also created a tier of government apt to fulfil crucial functions of the Welfare State (Carrillo, 1997). But how do the *Comunidades Autonomas* actually perform? Did they become modern institutions of government that provide public services in an adequate and efficient way, or did they just reproduce the clientele relationships between central and local government that existed before? In France, the 1982 decentralization laws aimed to improve the capacity of local and regional government to respond to the needs of the population and to promote regional economic development (Maurel, 1993; De Montricher, 1995). In order to envision the next steps in administrative reform, whether these be extended decentralization or re-centralization, it is imperative that the effects of the various existing decentralization laws are evaluated: what were the effects and how did they come about?

Literature in the field of centralization and decentralization is very extensive. This holds in particular for the area of fiscal federalism and constitutional economics (see Joumard and Kongsrud, 2003; Breuss and Eller, 2004), and to a lesser degree for the area of citizen participation in developing countries (e.g., Crook, 2003; Devas and Grant, 2003). However, systematic research into the impact of decentralization on the quality of administration is scarce (Fleurke and Willemse, 2004). This article will present the results of research into the relation between decentralization and the quality of administration in the Netherlands.

After decades of centralization, in 1980 the central government of the Netherlands embarked upon an ambitious project to decentralize the administrative system. It developed a general approach, proclaiming a series of general decentralization measures that aimed to improve the performance of the administrative system and to boost local democracy. In 1995, we engaged in a large research project financed by the Ministry of the Interior to evaluate the effects of these decentralization measures. The research problem was formulated as follows:

What are the effects of decentralization in view of the formulated goals of central government, and how can they be explained?

### **The Unitary Character of the Administrative System of the Netherlands**

The Dutch Constitution of 1848 introduced a *decentralized unitary* state with three tiers of general government: central government, the province and the municipality.

The Constitution stipulates a general competence for provinces and municipalities to issue ordinances and undertake services that they find necessary in the interest of their communities. These provisions justify the adjective *decentralized*, all the more as dominant normative theories consider municipalities as the basic units of the state (Toonen, 1987). However, apart from these general provisions the Constitution does not contain any safeguards for local autonomy. There are no specific competencies reserved for either provinces or municipalities. The national legislator, i.e., government and the two chambers of parliament, has complete sovereignty and in the end is not even restricted by the Constitution. The legislative bodies themselves are free to interpret the Constitution as they see fit and there is no Constitutional Court to appeal to. National legislation overrules ordinances of lower government bodies. Ordinances of provinces and municipalities have no force of law in areas where national legislation is exhaustive. On balance, although the Constitutional framework implies substantial autonomy for local government, it does not contain any formal obstacles for centralization.

The era of Reconstruction in the aftermath of World War II and the subsequent rise of the Welfare State have shown what is known as a process of *sneaky centralization*. In a piecemeal way central government invaded the domain of local government. Demands from a great variety of social groups gave rise to national legislation to guarantee a wide range of public services for all citizens. The scope of local government however did not diminish. On the contrary, local government became an important provider of public services. In this respect, Dutch local government underwent a development similar to local government in other countries of Northern Europe (Page and Goldsmith, 1987: 156–157). Expenditure by local government amounted to more than 30% of total public expenditure.

Specific grants financed a substantial part of local expenditure. In 1984, these more than 500 grants made up 69% of the total income of local government (Koopmans et al., 1999: 251), whilst the Municipal Fund—a general compensation fund that is distributed among municipalities according to a series of objective criteria to finance local expenditure—only accounted for 24% of the income of local government. Specific grants came with extensive administrative regulation, giving detailed rules for the planning of public service delivery and prescribing procedures for prior approval as well as for giving ex post account for the expenditure. Central regulation resulted thus in a low level of discretion for local government.

## A General Approach to Decentralization

At the end of the seventies, disadvantages of the centralized administrative system became increasingly obvious. They can be summarized as follows:<sup>1</sup>

- Central government had reached the limits of its capacity to process the growing streams of information on increasingly complex policy issues and to react in an adequate way to demands from an ever more dynamic society. Local government on the other hand was not well equipped for effective policy making to meet

<sup>1</sup> Central government presented this analysis in the first plan for decentralization, the *Decentralisatienota* (1980), p. 17–18.

these demands. It lacked discretion in the delivery of public services and depended strongly on financial resources controlled by central government.

- Local government had to deal with a highly fragmented central government that hindered an integrated approach to complex policy issues. When planning for urban renewal projects it was no exception that local government executives had to negotiate with six different ministries to obtain financial resources, each ministry stating its own specific and sometimes incompatible terms.
- The lack of discretion caused by the detailed central rules connected with specific grants impeded local government to customize public service delivery to local circumstances and needs of individual citizens.
- The widely spread phenomenon of centrally regulated specific grants frustrated the efficient allocation of resources by local government. As the applicability of most grants was limited to narrowly defined activities and means there were no incentives for local government executives to consider alternative, more efficient policies. As from 1982 the financial crisis of the Welfare State became more acute, this was considered a major problem and it formed a strong impulse for decentralization.
- The vitality of local democracy was threatened. Centralization changed the character of local government. It was no longer the autonomous institution where locally elected councils decided on ordinances and services they found necessary in the interest of the local community. It increasingly fulfilled the role of an agency of the state, executing policies that were decided on by central government. Why would citizens bother to vote for local councils if in the end central government decided on all main issues?

In 1980 and 1982 central government launched plans to radically decentralize the administrative system and to restore the position of local government. In order to achieve a more decentralized administrative system the government announced a series of general measures:<sup>2</sup>

- 1) The abolishment or reduction of central rules that govern the execution of local government functions. Detailed administrative regulations should be replaced by general statutory control, if any.
- 2) The substitution of specific grants by systems of financing that do not in any way intervene in policy-making by local government. The budgets reserved for specific grants should as much as possible be transferred to the Municipal Fund, so local government can freely dispose of the resources. If for some reason a transfer to the Municipal Fund would not be possible, then specific grants should be amalgamated to broad specific grants covering wide policy areas.
- 3) The abolishment of administrative tutelage of local government by provincial or central government agencies.

In our research, we named this a *general approach* to the decentralization issue. We had several reasons for this. Firstly, with the obvious exception of defense, foreign affairs and macro-economic policies, decentralization was meant to cover all policy areas. Secondly, decentralization implied a series of general measures to be

<sup>2</sup> *Decentralisatienota* (1980) p. 22–25.

applied to different policy sectors in the same way. Thirdly, central government assumed that the increase in the discretion of local government would result in the realization of a series of overall goals: customization in service delivery by local government, an integrated approach of complex policy issues by local government, the revitalization of local democracy and a higher efficiency of public service delivery. Clearly, decentralization was above all instrumental to a more efficient and effective public administration. We summarize the approach described above in Fig. 1.

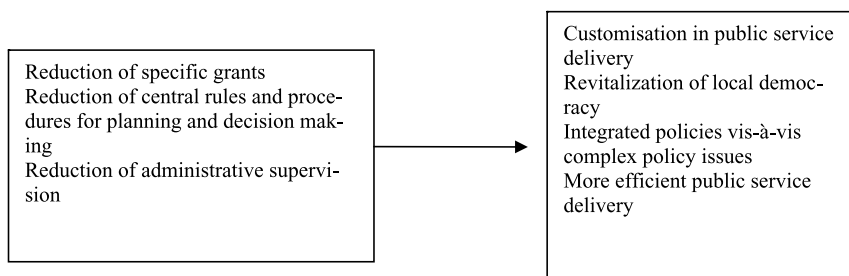
In the twenty-five years that have passed since government launched the first plans for decentralization a large number of projects to rearrange relations between central government, provinces and municipalities were executed, which included a large variety of policy sectors. The reduction of specific grants and administrative regulation was substantial. Of the 532 specific grants in 1980 to the local, provincial and regional government 152 grants survived in 2003, partly through the transfer of financial resources to the Municipal and Provincial Funds, partly through the amalgamation of grants. Central regulation of planning and decision making procedures was harmonized and simplified. A series of provisions for administrative supervision was abolished.

One would say that general conditions for decentralization were favorable. Due to a substantial increase in the scale of local government, Dutch municipalities are relatively large. In the beginning of the 20th century there were 1121 municipalities comprising an overall population of just over 5 million people. A slow paced but steady process of consolidation resulted in a reduction to 483 municipalities in 2004, while the overall population had risen to nearly 16,3 million people. The average population of municipalities is now 33.660. Only 12 municipalities have less than 5000 inhabitants.

On balance, municipalities are relatively potent institutions that administer large communities. Nevertheless, our research and analyses show that removal of obstacles for local autonomy does not suffice to attain the professed goals. We will present the essential findings of our research in Section 5, after having explained the research methodology in the following section.

## Methodology

In order to obtain a satisfactory view of the functioning of local government in the newly decentralized practice, we conducted research in two phases: (a) secondary analysis of previous research; (b) intensive field research in five areas of decentralization.



**Fig 1.** A general approach to decentralization

## Analysis of Previous Research

In this phase we researched the existing literature on the question whether decentralization leads to the realization of its professed goal or goals, and which factors have an impeding or stimulating effect. In this the professed goals (or intended effects) of decentralization are understood as administrative goals in terms of a better functioning of the internal or external administration. Often in decentralization projects one refers to one or more *sector goals* within the designated policy field. But in order to be able to compare the effects in one policy field with those in other policy fields, it is necessary to give a specification of the intended *administrative* effect(s), expressing the quality of the administration concerned, e.g., customization in public service delivery, accessibility of public administration, integrated policy-making, efficiency in public service.

After thorough selection seven evaluation studies appeared useful for our analysis. These studies cover a wide range of policy areas.<sup>3</sup> The analysis of the relationship between decentralization and the quality of administration yielded a series of explanatory factors, which we categorized as follows:

- *Characteristics of the form of decentralization.* These characteristics express which authority is transferred to a lower tier of government, in relation to actors in the adjoining fields, central actors, and to societal actors. We expect to find a relation between the nature and scope of this authority and (desired and undesired) effects.
- *Characteristics of the task or policy, subject to decentralization.* Decentralization may concern a wide range of policy programs. They can vary between occasional, large-scaled and complex projects to relatively simple routine matters. Policy programs may have regulating, distributive and re-distributive goals. We expect to find a relation between the characteristics of the policy concerned and the realization of the intended administrative goals.
- *Characteristics of the policy field.* Policy fields may differ strongly. A policy field can be characterized by homogenous or diverging views on the solution of a problem, by presence of shared or disputed professional norms, by presence or absence of external effects, et cetera. We expect that the effects of decentralization will vary with the variation in these characteristics.

This categorization has served as a heuristic tool in the second phase of our research.

## Field Research

The purpose of the second research phase was to verify and expand the results of the analysis of the first phase. In order to achieve this we needed to carry out intensive field research into decentralized practises. In selecting the cases we used three criteria: sufficient range of policy areas, sufficient variety in nature and size of

<sup>3</sup> The evaluations pertained to the decentralization of welfare policies, crèche facilities policy, welfare policies for the elderly, the conservation policy of monuments and historic buildings, policies for the physically handicapped, urban renewal, and public housing to municipalities and housing associations.

the policy instruments handed over or attributed, and sufficient variety in the volume and type of remaining central rules. The following areas of decentralization were selected:

- decentralization of housing policies (Ministry of Housing);
- decentralization of city-parking policies (Ministry of Traffic and Transport);
- decentralization in the field of income relief (Ministry of Social Affairs);
- decentralization of central funding of school transport (Ministry of Education);
- decentralization of the care for vulnerable groups: homeless, addicts and abused women (Ministry of Public Health and Welfare).

The research in this phase consisted of case study research including direct observation, documentation research, archive study, and open and closed interviews, combined with questionnaires in three of the five researched policy areas. The specific nature of each policy area required a tailored methodical design for each field. In the area of public housing we conducted research in six regional governments, which were characterized by different distributive rule systems. In the area of municipal parking policies we carried out case study research into the effects of decentralizing measures in eight cities that are widely spread over the country and of various size. The research into the effects of decentralization in the field of income relief was carried out in two phases. The first phase comprised eight case studies of local government practice of special income relief. Based on insights derived from these case studies, questionnaires were issued to both policy-makers and civil servants. In the fourth chosen area<sup>4</sup>-municipal funding of school transport-the dominant method of research was a combination of case studies and questionnaires among policy-makers, civil servants as well as citizens who used this service. The fifth area concerned the decentralized system of care for vulnerable groups. This task is assigned to 45 municipalities that act for all the municipalities in their region. Our fieldwork was carried out in six of these municipalities. The most important findings of these case studies were verified by means of a questionnaire issued among all of the 45 municipalities.

## Results

### Decentralization and the Customization of Public Service Delivery

One major problem that was attributed to centralization was that it impeded local governments to customize public service delivery, i.e., to adjust it to local circumstances and to specific needs of the public. In many policy areas, the discretion of local government was severely constrained by centrally specified standards of service provision. In many cases, these standards formed part of the rules and regulations of specific grants allocated by central government. We will give just two of many possible examples.

<sup>4</sup> This policy area we researched in co-operation with the SCO-Kohnstamm Institute of the University of Amsterdam.



Central government provided grants for the construction and improvement of public housing and specified in detail the amounts that local governments could allocate to a housing project depending on its characteristics. The detailed standards frequently conflicted with plans for construction and improvement that addressed local circumstances and demands from the housing associations, the house-owners or tenants.

Local government is statutorily required to provide income relief for those without means of support. Central government compensated local government for the expenditure for income relief, but at the same time issued detailed regulations with respect to the amounts to be paid to citizens according to their (standardized) personal circumstances. The detailed standards frequently conflicted with the vast variation in personal circumstances, sometimes leaving citizens in obvious need.

One central assumption of the general approach to decentralization was that the abolishment or substantial reduction of central rules with respect to local service provision would enhance the capacity of local government for customization. In accordance with this general assumption in a number of policy areas specific grants were amalgamated to form broad grants, while at the same time central rules for spending were reduced. In other policy areas, specific grants were transferred to the general Municipal Fund eliminating nearly all restraints for local government.

Research shows that the effects of the reduction of central rules on the customization of service provision vary. Whether customization is realized depends on certain characteristics of the policy area and on local circumstances. Central to the understanding of the influence of these characteristics and conditions is that the customization of service delivery presupposes that government institutions have all the relevant information at their disposal and take this information into account when making their decisions. Our research showed that the active involvement of interest groups, social institutions or individual citizens in the decision making process of local government is a crucial factor in the customization of public services. In some policy areas this involvement has a long-standing tradition and is fostered by the fact that the decisions of local government have an impact on a wide range of interests.

In the fields of urban renewal, public housing and regulation of city parking (the introduction of no-parking zones, parking licenses and wheel clamps), we found that interest groups (i.e., associations of small businesses and tenants) and social institutions (i.e., housing associations) are active players in the decision making processes (RIGO, 1989; Fleurke et al., 1984, 1996). They take part in hearings, consultative bodies or project groups to see that all information they deem relevant is presented, and to defend their interests. If they lack institutional presence, they find ways to influence the local executives or the local council. On the other end, local government culture furthers the active involvement of social groups in decision making. No self-respecting local executive would consider making decisions with a major impact on local society without a broad consultation of the social groups and institutions concerned. The combination of the reduction of central rules and the active involvement of citizens in local decision-making results in the customization of public service delivery. The reduction of central rules removes the obstacle to tailor decisions to local circumstances and needs. The presence of strong social player's forces local government to actually take these circumstances and needs into account.

While we found that customization as one of the desired results of decentralization was attained in the policy areas mentioned above, this was not the case in the

field of income relief. Decentralization in this policy area implied the transfer of former specific grants to the Municipal Fund. The general mandatory provision for local government to provide income relief to citizens in need survived, but central government abolished nearly all other regulations with respect to municipal policies. This would enable local government to customize its decisions, at least that was the assumption.

Our research showed that only 25% of the Dutch municipalities attained a satisfactory level of customization (Fleurke et al., 1995). In 25% of the municipalities decisions allocating additional income to citizens in need showed serious flaws, while in the remaining 50% of the municipalities at least part of the practice of income relief was defective. One of our main findings was that programmed instruction of the decision-making process accounted for the difference between good and bad practice. Individual officials of the local government agency involved are the actual decision-makers with respect to the allotment of additional income to citizens. Clients who apply for additional income generally lack bureaucratic competence. They have little or no knowledge of their rights, do not know what information is relevant to the decision they seek and cannot argue their case in front of the government official. The burden of customization almost completely lies with the government agency. We found that local government agencies that developed few and global rules to guide decision-making by their officials performed badly with respect to customization. The lack of rules leads officials to grade clients and their personal circumstances into manageable categories to simplify decision-making. In this process, they tend to neglect the individual needs of clients. Other local agencies developed extensive decision-making programs forcing their officials to scrutinize the personal circumstances and needs of their clients and to address the needs accordingly. They performed well in terms of customization.

In a paradoxical way, in the case of income relief, after the abolishment of central regulation the development of rules to guide decision-making within the local agencies proved a condition to attain customization. Of course, the successful internal regulation of decision-making contained rules of a specific character. They did not forbid or prescribe the allotment of fixed amounts according to standardized personal circumstances of clients, as the former central rules did. Instead, they instructed officials to investigate the personal circumstances of each client actively. They extensively specified circumstances that would justify the allotment of additional income and invited or even obliged officials to deviate from existing general norms in special circumstances. We found that agencies in smaller municipalities in general lacked the capacity to develop extensive decision-making programs, although some co-operated with other municipalities to achieve this. The agencies in the larger municipalities had the necessary capacities, but not all found decision-making programs relevant.

Does a reduction of central regulation result in the customization of public service delivery? Our research suggests that it depends on characteristics of the function local government has to perform and on conditions in the policy field. Some functions of local government concern the development and execution of plans and projects that regard the community as a whole or the interests of organized social groups. In these cases, the political culture generally ensures the active involvement of social groups and interest groups in decision-making by local government. Consequently, decisions are tailored to local circumstances and to the interests of local groups. Other functions of local government concern the de-

livery of services to individual citizens. In many cases, this means that there is no countervailing power for local government to enforce customization. Decentralization does not lead to customization, unless additional measures support or incite local government to develop adequate decision-making programs.

### Decentralization and the Vitality of Local Democracy

The Constitution and the Municipal Government Act attribute the full authority of local government to the elected councils. Although each municipality by law disposes of an executive board, all decision-making powers lay with the elected council, unless the law stipulates otherwise. The local council appoints the executive board. With exception of the mayor, who is appointed by central government, members of the executive board are recruited from and retain membership of the elected council.<sup>5</sup> Local government design was monistic, concentrating legislative and executive powers with the elected council. In practice however, the system had become increasingly dualistic. As the functions of local government grew more complex, councils delegated decision-making authority to the executive boards. The laws that—with the rise of the Welfare State—prescribed local governments to participate in the delivery of public services, generally attributed decision-making powers to the executive boards and not to the local councils. Dependency of local government on specific grants gave rise to an extensive practice of negotiations between local executive boards and central government agencies. Local councils formally disposed of a series of competencies to establish plans and to issue ordinances relevant to the execution of local policies. In practice their role increasingly consisted in grudgingly approving proposals prepared by the executive boards, who themselves had little room to operate because of central rules and policies and their dependency on financial resources controlled by central government agencies. The representative function of local councils was undermined, the vitality of local democracy threatened. Central government assumed that the reduction of central regulation and of the financial dependency of local government would restore the position of the elected council and revitalize local democracy.

In our research on the effects of decentralization, we focused on the actual role of the elected council. Did the enhancement of the discretion of local government lead to a consolidation of the position of local council as the principal body of local government? Did local councils actually discuss general policies in the policy area concerned; did they instruct and control the executive boards? Again, effects of decentralization proved not uniform. Two factors influence the actual role of local government councils: the scope and social impact of the local government function and the power-dependency relations between local government and social institutions.

In some policy areas, decentralization implies that local government becomes responsible for all or nearly all government functions. This is the case in public housing, urban renewal and city-parking policies. In these areas, there are no

<sup>5</sup> In 2002 an administrative reform on local and provincial level was instituted, whereby the monistic system was replaced by a dualistic one. The effects of this reform are not yet clear.

statutory obligations for local government to formulate or execute policies; the initiative lies with local government itself. Policy-making in these areas comprises a series of decisions and activities with substantial implications for local society, that sometimes give rise to intense social debate. Large budgets are involved on which local councils have to decide. These characteristics guarantee that local councils discuss the major decisions involved, instruct the executive boards and in time evaluate the policy-results (Fleurke et al., 1996, 1997).

In other policy areas, the scope of local government remains restricted to the execution of statutorily prescribed functions, although decentralization has increased the discretion of local government. This is the case in the areas of income relief and of the funding of special provisions for the physically handicapped. In both cases, the law stipulates a central criterion for the allotment of financial benefits. Although discretion of local government to formulate its own policies within the limits of law is considerable, most elected councils have not bothered to do so. They have left the execution of these tasks to local government agencies under the supervision of the executive board. Interestingly, a marked number of elected councils in the cities did take initiatives to create special poverty funds. They were meant to facilitate the participation of the poor in social and cultural activities and sports and to support families in debt. Although the impact of these special funds was insignificant compared to the statutorily prescribed individual income relief, elected councils evaluated the spending of the funds every year and discussed the policies to follow. They considered the poverty funds as their own, while they thought of the statutorily prescribed income relief merely as a provision of central government, that accidentally had to be offered by local government (Fleurke et al., 1995).

In many policy areas, non-governmental organizations play an important part in the delivery of public services. Housing associations receive government funds to build and improve public housing. A variety of welfare and cultural institutions offers a wide range of services: from childcare to social welfare for the elderly, from youth work to the provision of bed and breakfast for the homeless. Local government allocates financial resources and formulates general policies; the non-governmental organizations are the actual providers of public services. This division of labor creates mutual interdependencies between the parties involved. Consequently, the local executive boards generally confer and negotiate extensively with non-governmental organizations before submitting plans and policies to the elected councils. In some policy areas, decentralization increased the responsibility of local government, but it did not strengthen the position of local government in relation to non-governmental organizations. Under the centralized administrative system, central government agencies initiated policies to address new social issues and backed local executives in their relations with non-governmental organizations. After decentralization, local government was on its own, and some times without policy-instruments to counterbalance the power of non-governmental organizations. Consequently, the executive boards developed plans and policies dominated by the particular interests of non-governmental organizations, letting the elected councils little or no room to articulate non-vested interests. The delivery of welfare services provides a good example of this phenomenon. In the years after decentralization of budgets for welfare services, there was a substantial and growing need for day care centers for young children. Municipalities however did not reallocate financial resources accordingly. Despite general cutbacks, the vested non-governmental welfare organizations retained their budgets (Steinmann, 1991). Dependency of

local government on non-governmental organizations restrains the role of elected councils, in the same way as dependency of local government on central agencies did before decentralization.

On balance, we conclude that decentralization does not suffice to strengthen the position of the local councils. In the first place, this depends on the scope and features of local government functions. If decentralization involves public services that are important to the local community as a whole and local government is in full control, elected councils are likely to take charge, and instruct and control the executive boards. If on the other hand, decentralization merely reduces the regulation concerning the execution of statutory dictated functions, the executive boards-if not their civil servants-are likely to absorb the increase in discretion. In the second place, elected councils will enhance their grip on policy-making when decentralization strengthens the position of local government vis-à-vis non-governmental organizations and interest groups, by providing it with policy-instruments.

### Decentralization and Policy Integration by Local Government

In the analysis of central government, the organizational differentiation of central government agencies is responsible for the fragmentation of policies concerning public service delivery in local communities. When local government has to deal with complex policy issues, fragmentation of central policies impedes an integral approach. As with the rise of the Welfare State the complexity of social problems increased, central government deemed integrated handling of these problems more and more necessary. At the same time, it recognized that it was not able to realize integration. Elaborated planning systems failed to produce the necessary coordination; efforts to reorganize central government met with strong resistance of the ministries and agencies.

Decentralization was thought to solve this problem. The transfer of decision-making powers to local government would overcome the problems of fragmentation. It was hoped that local councils and local executive boards would be able to formulate and execute integrated policies. Research proved this a rather naive theory. Decentralization by itself does not result in policy integration by local government. There are two more obstacles to overcome.

In the first place, organizational differentiation is not limited to central government. It pervades the entire public bureaucracy. During the last twenty-five years, many municipalities have made substantial efforts to reduce organizational differentiation. However, no organizational model can cover all interdependencies between social processes and policies. Moreover, over time new interdependencies manifest themselves and it takes time to adjust organizational differentiation and coordination. Organizational differentiation of local government was manifest in several policy areas. For example, central government encouraged local government to develop integrated welfare policies for the elderly. Many municipalities put their social welfare agencies in charge of integrating policies on housing, health care, income relief and community work. They did not find it any easier to obtain cooperation from local public administration than it had been from central government agencies under the centralized administrative system. Although one of the members of the local executive board usually was entrusted with the responsibility to coordinate policies for the elderly, this did not prove a sufficient condition to realize integration

(Kwekkeboom, 1994). We noted similar experiences in the field of urban renewal, the policies for socially deprived groups, and the care for vulnerable groups (Fleurke, 1982; Van der Pennen and Ter Borg, 1996; Fleurke et al., 2002). Research showed that when the issue is high on the local political agenda this constitutes a favorable condition for integration: it provides the coordinating agency with grounds to claim cooperation from other agencies. Even then, integration is a difficult task for local government.

In the second place, as we mentioned before, non-governmental organizations play an important part in the actual delivery of public services. The rationale for the involvement of non-governmental organizations generally lies in their expertise of the issues at hand and in the fact that they maintain long-established relationships with client groups. By their very nature, they are specialized institutions with vested interests. Consequently, when addressing complex policy issues, local government faces organizational differentiation of the agencies involved. Some of the non-governmental organizations receive their financial resources directly from central government. In the last twenty-five years, the autonomy of non-governmental organizations vis-à-vis government agencies has been enhanced. Central government not only embarked upon policies of decentralization, but on policies of deregulation as well. This complicates local governments' task to develop and execute integrated policies. Although the position of local government in relation to central government has become stronger, the same applies to the position of non-governmental organizations in relation to local government. In several policy areas, after decentralization local government failed to develop and execute integrated policies (Kwekkeboom, 1994; Van der Pennen and Ter Borg, 1996; Fleurke et al., 2002). At least part of this was because local government lacked instruments to effectively coordinate the activities of the non-governmental organizations involved.

Policy integration proves an even more difficult task in times of contraction. In the eighties and early nineties decentralization projects were a means for central government to realize cutbacks in government spending. Central government used the transfer of specific grants to the Municipal Fund and the amalgamation of specific grants to reduce the financial resources allocated to local government. Decentralization was supposed to enable local government to operate in a more efficient way, so central government collected in advance. Policy integration implies the rearrangement of resources. Activities and policies directed at specific goals must be redirected to contribute to goals that are part of an integrated policy. As we mentioned before, local agencies in charge of integrating the policies of other agencies, governmental and non-governmental, rarely dispose of instruments for effective coordination. They have to realize integration through intensive processes of persuasion and bargaining. When resources are relatively abundant, agencies have room to give in for the sake of good relations. In times of contraction agencies tend to retreat to their own domain and guard their particular interests. Research showed that efforts to develop integrated policies concerning residential housing for the elderly and local welfare provisions failed because the agencies involved were too busy trying to make ends meet. They focussed on the realization of their own particular goals (Van den Ham et al., 1989; Steinmann, 1991).

There is no doubt that under centralized administration the fragmentation of central government policies was a hindrance for local government to pursue policy integration. Decentralization did concentrate decision-making powers with local government reducing the organizational differentiation of the administrative system

as a whole. This did not however remove all the obstacles for integrated policymaking. The organizational differentiation of local government itself, and of the non-governmental agencies in the policy field, are still barriers to overcome. Nevertheless, it is possible for central government to create favorable conditions for policy integration at the local level. Knowledge transfers about successful projects in other local communities can support local government agencies in their efforts to develop integrated policies. Additional financial resources can buy cooperation from other government organizations and non-government agencies. The availability of policy-instruments for local government to effectively coordinate the activities of non-governmental organizations is crucial. If central government finds integrated policy making a general interest, it cannot limit decentralization to the abolition of central rules and administrative supervision.

### Decentralization and Efficiency

Central government decentralization plans assumed a direct and univocal relation between decentralization on one hand and customization, the revitalization of local democracy and the enhancement of the problem solving capacity of local government on the other. Assumptions about the relation between decentralization and efficiency were more complicated. In accordance with insights from theories on fiscal relations the decentralization plans mentioned both advantages and risks with respect to the efficiency of local public service delivery (cf. King, 1984).

One of the risks mentioned was that so called technical inefficiencies would occur in the case of decentralization of government functions that require substantial expertise or that benefit from large-scale production. As we mentioned before, the scale of Dutch local government has increased over the years. There is a general belief that municipalities are competent to provide a wide range of public services, if not on their own then in cooperation with their neighbors. This belief is fostered by research that shows that citizens are generally content with the quality of service-delivery by local government. Furthermore, research carried out to evaluate consolidation policies failed to prove substantial differences in the quality of service delivery between municipalities of different size (Derksen et al., 1989; Denters et al., 1990). Technical inefficiencies were not a real issue in the debate on decentralization. Nor was the hazard of technical inefficiencies ever a motive to decentralize government functions to municipalities according to their size.<sup>6</sup>

Evaluations of service delivery by local government after decentralization show that the issue of technical efficiency deserves more attention. In several policy-areas small municipalities performed markedly worse than large ones. In the field of public housing, during the first years after decentralization the average price of new houses in small municipalities was 5 to 10% higher than in large ones. This was because the smaller municipalities lacked the knowledge and expertise to appraise the plans submitted by housing associations, a function formerly executed by a central government agency (RIGO, 1984). The large municipalities simply took on

<sup>6</sup> As is the case in Spain, where the Local Government Act (1989) distinguishes four categories of municipalities according to size, and specifies different functions for each category (Carrillo, 1997: 45).

specialists to do so, some times engaging the former staff of the central government agency. When the administrative regulation for the funding of special provisions for the physically handicapped was abolished, the larger municipalities set out to organize collective transport facilities. The facilities were adequate and relatively cheap. Most of the smaller municipalities did not have sufficient scale for collective facilities and continued their pre-decentralization practice to subsidize transport on an individual basis (Vollering and Den Heeten, 1996). As we mentioned before, in the area of income relief the smaller municipalities did not develop decision-making programs that were necessary for customization, because of their small staffs.

In conclusion, central government underestimated the possible negative consequences of decentralization with respect to the technical efficiency of public service delivery. This is not to say that decentralization should not take place in policy areas where extensive expertise and large-scale production are required. There are functional equivalents to attain efficiency, i.e., cooperation between local municipalities, outsourcing and the establishment of knowledge centers by central government, to be used by local government on a voluntary basis. However, the issue of technical efficiency should be incorporated in the framework to decide on decentralization. Moreover, it may be necessary to take special measures as a part of decentralization projects to prevent that technical inefficiencies occur.

Theory on fiscal relations stipulates that decentralization of government functions should not take place when there are substantial externalities, that is to say when the advantages and costs of public service provision exceed the local community. If this is the case, allocation of resources by local government will lead to either underprovision or excessive spending. However, if externalities do not occur, decentralized administrative systems, for a number of reasons, allocate resources more efficiently than centralized systems do (King, 1984: 20–24). First, specific grants generally do not contain incentives for local government to seek efficiency, as the benefits of such behavior will eventually fall to central government. According to the decentralization plans, a transfer of specific grants to the Municipal Fund should induce local government to optimize allocation, as it would gain complete control of the financial resources. Second, specific grants generally come with extensive administrative regulation to prevent local government from wasting funds. Unfortunately, in many cases, these rules do not only prevent waste, they also preclude alternative policies or measures of local government that produce more social welfare. The reduction of administrative regulations, the creation of lump sum budgets or broad specific grants would eliminate the obstacle for local government and should enable it to realize efficient allocation.

Our research shows that not every form of decentralization is adequate to attain the professed goals. The general approach to decentralization implied that the Ministry of the Interior advocated the transfer of specific grants to the Municipal Fund. In several policy areas, plans were developed accordingly. Specific grants that existed for school transport, individual income relief and provisions for the physically handicapped were transferred to the Municipal Fund. At the same time, the national legislator established or confirmed statutory provisions that instructed local government to deliver these services to their citizens. The combination of complete financial responsibility and the statutory obligation to provide services had negative consequences for the efficiency of allocation. In the areas concerned, local government cannot control the volume of claims and expenditure. This depends on



local social economic development, on choices of individual citizens and on policies of other government agencies.<sup>7</sup> Consequently, the discretion of local government to freely allocate the financial resources it receives through the Municipal Fund is severely restrained. If local governments honor the statutory rights of citizens, they may be forced to cut back expenditure on other public services. Our research shows that especially the smaller municipalities tried to protect themselves against this. Some restricted facilities for the physically handicapped and for school transport to an absolute minimum; others kept silent about the extension of citizens' rights to income relief in order to minimize applications (Vollering and Den Heeten, 1996; Vermeulen et al., 1994; Fleurke et al., 1995). Clearly in these cases, the form of decentralization chosen was not adequate to meet the subsequent goals.

Decentralization projects in the area of urban renewal and public housing show that it is possible to design administrative systems that simultaneously enhance the efficiency of allocation and guarantee basic provisions by local government (RIGO, 1989; Hulst, 2000). In both cases central government has created broad specific grants to cover the entire policy area. The Urban Renewal Fund has been distributed among municipalities according to an estimate of the magnitude of the problem. Local government was able to spend the resources as it pleased as long as measures addressed the issue at hand. It could also decide to save the financial resources for a maximum of five years, so pressures to spend did not distort allocation decisions. The system contained incentives for local government for efficient allocation. It expressed the eventual responsibility of central government for the livability of towns and cities, without restraining local government in their policies. However, the establishment of broad specific grants was considered a next best solution, as the general decentralization approach advocated the abolishment of specific grants.

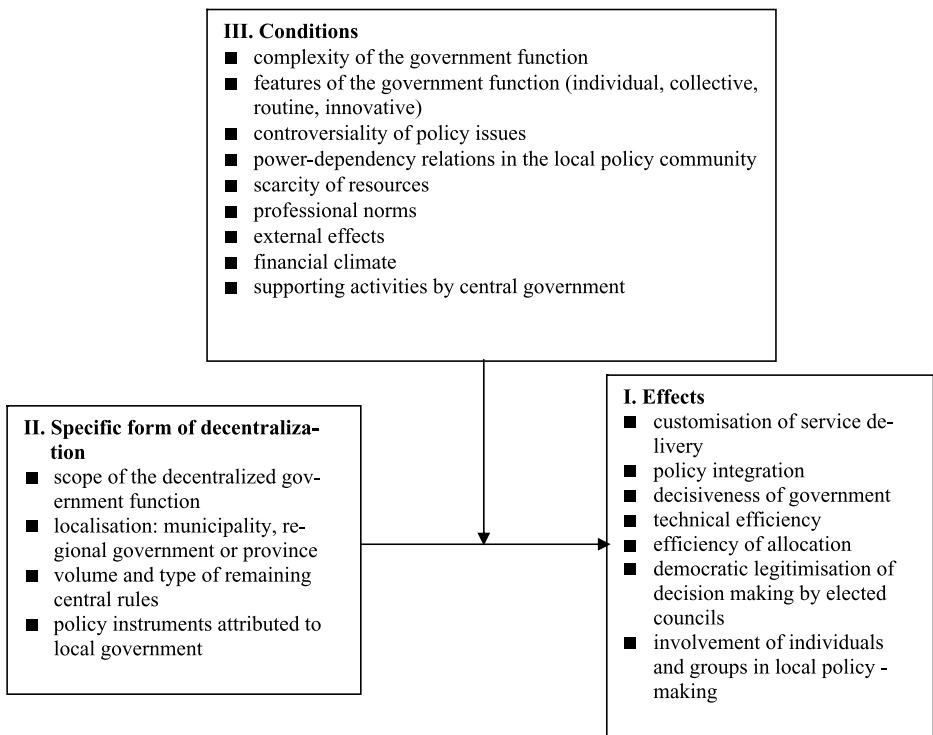
## Conclusions

In 1980 the Ministry of the Interior of the Netherlands developed a general approach to decentralization. It was convinced that the implementation of a series of general decentralization measures would solve some of the serious problems central government had in fulfilling welfare state functions. The Ministry's assumption was that a reduction of specific grants, central rules, procedures and administrative supervision would overcome the fragmentation of central policies and enhance the capacity of local government to respond to the needs of the population. In the view of the Ministry, these reductions would all contribute to the realization of the professed goals of decentralization: a more efficient and client-oriented delivery of public services, better integrated policies vis-à-vis complex policy issues, and the revitalization of local democracy.

Our research shows that the decentralization in the Netherlands did not meet the high expectations. In par. 4 we have seen that in certain situations the intended effects were realized only partially or not at all. Our explanation for these results is

<sup>7</sup> If schools decide to send pupils with learning problems to special schools, local government has to meet the claims for school transport. A rise of unemployment, policies of health care institutions and insurance companies bear directly on local expenditure for individual income relief.

that the theoretical framework underlying the decentralization policies was robust indeed, but unfortunately too simple. The main theoretical assumption had been that a series of general measures would result in an overall more effective, efficient and democratic administrative system, irrespective of the policy area. This approach is shown to be in need of amendment on two central points. Firstly, the intended effects of certain decentralization measures depend on the presence or absence of *conditions* regarding characteristics of the government function, the policy area and the local community. For example, whether the reduction of central regulation will result in more effective service delivery depends on conditions like the complexity of the tasks to be carried out by local government, on power-dependency relations in the local policy networks, and on the scarcity of resources. Secondly, effects depend on the *specific* decentralization measures. They depend on the scope of the government function that is transferred, the localization of decentralization, the volume and type of remaining central rules, and on the policy instruments local government disposes of. General grants will, under certain conditions, not result in the customization of service delivery or in efficient allocation. The increase in discretion of local government does not result in integrated policy-making if local government does not dispose of policy instruments to co-ordinate the activities of non-governmental organizations. In other words, we concluded that a general approach to decentralization must be replaced by a more specific theoretical



**Fig 2.** A contingency approach to decentralization

framework that represents the contingent character of the effects of decentralization. We have specified this in Fig. 2.

According to this model considerations regarding decentralization ideally consist of at least three elements. The first element concerns the professed goal (or intended effect) in terms of a better functioning of the internal or external administration. It contains specifications of the intended administrative effects, expressing the quality of the administration concerned. The second element of the model regards the means, that is, an administrative system with a decentralized character. Decentralized systems may take on various specific forms, depending the scope of the decentralized government function, the localisation of decentralization (municipality, regional government or province), the volume and type of remaining central rules, and the policy instruments attributed to local government. The third element specifies the goal-means relation by describing under which conditions this relation exists. In our research we found a series of conditions relating to characteristics of the decentralized policy and to characteristics of the policy field and of the community in which the decentralized task is performed. These conditions influence the degree of success in realizing the intended effects of decentralization. In a general sense the model is based on the question, which form of decentralization causes which effects on administrative quality under which conditions. In this way the model invites to critical evaluation of existing decentralization policies and stimulates the careful design of new decentralization policies.

In retrospect, the general approach to decentralization was beneficial, maybe even necessary, to start up the process of reform. Resistance to decentralization was tough. Ministries, nationally organized interest groups and parliament: they all stood to loose influence on decision making in the national political arena. Several times, after the first plans were launched, it proved necessary to create new impulses to keep the process of decentralization going. A more subtle approach, emphasizing possible disadvantages and limitations of decentralization, might have fed the forces of resistance. After twenty-five years however, there is no longer a need to argue the case for decentralization. The centralist bias that was typical for the era of the rise of the Welfare State has been overcome. Consequently, it is time to incorporate the experiences of the last twenty-five years in the theoretical framework that underlies decentralization policies. Evidently the assumptions of the general decentralization approach do not hold and the continuous use of this framework is bound to have negative effects. When decentralization is based on high-strung expectations and results are disappointing, re-centralization is imminent. There are several examples of lobby's and claims for re-centralization after disappointing results of decentralization projects, and in some cases central government responded favorably to these claims.<sup>8</sup> This might have been prevented if there had been more realistic expectations about the effects of decentralization. Moreover, a careful design of decentralized administrative systems, taking into account the experiences of the

<sup>8</sup> Organisations of physically handicapped urged central government to issue rules for local government to guarantee minimum standards of service provision and to restrict client contributions. Central government responded to the latter claim. Associations of parents demanded central rules with respect to quality of school transport. Trade unions and members of parliament asked the Ministry of Social Affairs to intervene in local policies, when research showed that local governments spent substantially less on income relief than they did before decentralization.

last twenty five years, will result in more effective policy making and service delivery.

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**Frederik Fleurke** has a chair in Public Administration at the Department of Public Administration and Organisation Science of the Vrije Universiteit Amsterdam. He lectures on intergovernmental relations and administrative analysis, and has published extensively on centralization and decentralization. His current research is into the influence of the European Union on the national administrations of EU-members.

**Rudie Hulst** teaches public administration at the Faculty of Social Sciences of the Vrije Universiteit Amsterdam. His research covers issues of centralization and decentralization, co-operation and co-ordination in intergovernmental policy networks and the impact of Europeanization on intergovernmental relations in the member states of the EU.